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HOUSE STUDY GROUP special legislative report

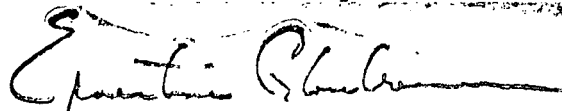
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KEY ISSUES OF THE JUNE 1984 SPECIAL SESSION

The second called session of the 68th Legislature, meeting from June 4 to July 3, passed the state's first major tax bill in 13 years, raising more than \$4.6 billion, and committed most of the money to implementation of extensive education reforms and expansion of the highway budget.

This report outlines the principal features of the revenue, education, and highway bills passed in the special session.



Ernestine Glossbrenner
Chair

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HIGHLIGHTS

The second called session of the 68th Legislature convened June 4 to consider three main topics: education reform, increased highway funding, and the revenue needed to pay for these items and keep the state budget on a sound footing. By the end of the session July 3, the Legislature had overhauled the state's school-finance system, pumped \$1.3 billion into highways, and approved a tax bill that will raise \$4.68 billion over the next three years.

Education

The current State Board of Education will be abolished and replaced until Jan. 1, 1989, with a smaller, appointed board. The board will then become an elected body again, but the Governor will retain his new power under HB 72 to appoint the chair. The bill concentrates authority over education policy in the state board; the commissioner of education will serve at the discretion of the board, will surrender to the board powers to make certain rules, and will lose the power to reject textbooks. Accountability of local school districts to the state board will be enhanced by new accreditation and reporting requirements.

Minimum annual salaries for beginning teacher will increase \$4,100, to \$15,200. Minimum salaries for already-employed teachers will increase by at least \$1,700 for 1984-85, and the following year all teachers will start receiving \$1,140-a-year pay raises based on longevity.

These salaries could be supplemented via a new four-level career ladder, with eligibility based on experience, training, and appraisals under a new evaluation system.

All teachers and administrators will have to pass a competency exam in their fields by June 30, 1986 (subject to certain exceptions).

The bill increases state education aid about \$2.8 billion over three years, adding \$800 million-plus for the 1984-85 school year. The substantial changes made by HB 72 in school finance mean, among other things, that the 90 poorest school districts in the state will receive an additional \$255.4 million in 1984-85, while the 168 richest districts will lose \$18.7 million.

The current funding mechanism, tying state aid to a district's allotments of "personnel units" under various formulas and ensuring a district no less aid than it received in 1980-81, will be replaced by a basic-entitlement program,

with special allotments for high-cost instructional programs like vocational education and for purposes such as supplementing teacher salaries under the new career ladder. An enrichment-equalization allotment expands considerably the state's commitment to equalization of spending per pupil to counteract disparities in local property wealth. Until Sept. 1, 1987, HB 72 provides some offsetting financial aid to districts that lose money under the new system.

HB 72 reorients the school day toward academics and stiffens curriculum requirements. High-school students will have to pass an exam in English and math in order to get a diploma. Vocational programs will have to meet new standards of usefulness and efficiency. Activities interfering with scholastic work during the school day will be curtailed by a variety of measures. The school year will be lengthened by five days. Each school district will be required to have a state-approved discipline program, and basic procedures for handling disruptive students are spelled out. Average pupil-teacher ratios will have to drop to 20 to one (down from 25 to one).

Some measures aim specifically at upgrading elementary education. Prekindergarten classes and preschool classes must be made available for certain disadvantaged pupils. And a class-size limit of 22 pupils will be phased in for first through fourth grades.

Raising Revenue

To increase highway spending and fund the education-reform package, the Legislature passed HB 122, an omnibus tax bill that will generate \$4.683 billion over the next three fiscal years. The bill raises the rates on the sales tax, franchise tax, motor-fuels taxes, motor-vehicle sales and use tax, the liquor, beer, ale, wine, and mixed-drinks taxes, the cigarette tax, the hotel-motel tax, the amusement-machine tax, and the motor-carriers sales tax. In addition, the bill increases vehicle-registration fees and tuition for out-of-state and foreign students, expands the sales-tax base, and implements procedural changes in collection of the sales, franchise, and insurance taxes.

Motor-fuels taxes will account for the largest share of the new revenue--\$1.34 billion over the next three years, or 28.6 percent of the new revenue. Ranking second is the sales tax, which will bring in \$1.13 billion, or 24.2 percent of the new revenue. This revenue derives from a combination of a tax-rate increase (\$340.1 million), an expansion of the sales-tax

base (\$719.5 million), and changes in collection procedures (\$73 million). A three-year, phased-in increase in motor-vehicle registration fees accounts for 15.1 percent of the new revenue, or \$708 million, and an increase in the franchise tax plus a change in the allocation of taxable capital will yield 11.6 percent, or \$542.7 million. Increasing the motor-vehicle sales tax will generate \$505.9 million or, 10.8 percent of the new revenue, and higher taxes on alcoholic beverages will account for \$146.9 million, or 3.1 percent. Changes in laws governing the insurance-premium tax will net \$144.8 million, or 3.1 percent. The two-cent increase in the cigarette excise tax and imposition of the tobacco-products tax on snuff will yield \$78.6 million, or 1.7 percent of the new money. Increases in the hotel-motel tax, the amusement-machine tax, and the motor-carriers sales tax together will generate \$56.6 million, or 1.2 percent. Tuition increases will generate \$27.8 million, or 0.6 percent.

Apart from the tax bill, the Legislature raised \$77.4 million in interest as a result of the cash-management bill, SB 27.

Revenue Prospects

Most of the \$4.683 billion in revenue generated by HB 122 has already been committed to education, highways, and other special appropriations made during the special session. According to the LBO, about \$560 million of the tax-bill revenue remains uncommitted through the 1987 biennium. Adding to this the \$77.4 million in interest from the cash-management bill and the \$15.2-million surplus from the 1984 fiscal year, the Legislature will have \$652.6 million in new revenue to use for other state purposes during the next three years.

However, prior to the special session, the LBO had projected revenue shortfalls ranging from \$570 million to \$2.2 billion, depending on revenue growth, population expansion, and inflation. Thus there may still be little room in the state budget for a real increase in per-capita spending for state services during the upcoming biennium.

Highways

The Legislature abolished the current highway-funding mechanism and created new statutory dedications of revenue to the highway fund. Lawmakers also gave the Highway Department more flexibility in spending money designated for farm-to-market

roads and improved the department's negotiating power in right-of-way acquisitions. The Legislature also authorized creating road utility districts and transportation corporations, which would use private resources for highway planning and road construction.

EDUCATION

Organization and Management

The 27-member, elected State Board of Education will be abolished and replaced by a transitional board of 15 members, appointed by the Governor from 15 new state-board districts. The change will occur when and if it is precleared by the U.S. Department of Justice in the review required by the federal Voting Rights Act.

The 1984 elections for the State Board of Education are canceled. In the 1988 general election, all 15 state-board members will be elected to staggered four-year terms, rather than the current six-year terms. The residency requirement for board members is reduced from five years to one year. Disqualifications from board membership of persons who receive any compensation from the state or a political subdivision, or who engage in any "organized public educational activity," are removed, but a new disqualification is added for registered lobbyists. The Governor, rather than the board, will name the board chair, who may not serve more than two consecutive terms as chair.

A new Legislative Education Board will oversee implementation of education policy. The LEB will consist of the Lieutenant Governor, the House Speaker, the chairs of the House and Senate education committees, the House appropriations and Senate finance committee chairs, two representatives named by the Speaker, and two senators named by the Lieutenant Governor. The LEB will designate three nominees from each of the 15 state-board districts, and the Governor will appoint one of the three to the transitional board. The LEB will also conduct a \$1-million study of telecommunications and the public schools. The Legislative Education Board will continue to exist as an overseer of education policy after the State Board of Education reverts to being an elected body.

The new law designates the State Board of Education as the primary policymaking body for public education. The state board, rather than the commissioner of education, will promulgate most rules and regulations, and it will review the commissioner's application of those rules. The commissioner will serve at the will of the board; under current law, the commissioner serves for a set term of four years, with removal only for cause. The commissioner will no longer need to be a five-year resident of the state, or have the highest school administrator's certificate, or hold a master's degree.

The State Board of Education will evaluate performance, make four-year plans for meeting system goals, and submit progress reports before each regular legislative session. The state board will require each school district, as part of its annual financial report, to give cost breakdowns by campus and program and to include management, cost-accounting, and financial information not currently provided.

The state board will no longer review the commissioner's decisions on appeals of local school-board actions. Appeals of the commissioner's decisions will be taken to a district court in Travis County.

The commissioner will no longer have the power to review or reject books submitted for adoption by the state textbook-selection committee. Only the state board will have that power. Textbooks will be adopted for a maximum period of six years.

The state board will set standards for accreditation of school districts, encompassing goals and objectives, statutory compliance, test scores, effectiveness of principals, fulfillment of curriculum requirements, special programs, correlation of test scores and grades, teacher training, paperwork reduction, board-member training, and efforts to improve attendance. The state board will be required to revoke accreditation, and will be able to withhold state funds, from a district that fails to maintain minimum state standards.

Districts will be investigated at least every three years to determine whether they satisfy state accreditation standards. Principals, teachers, and parents will be consulted in an accreditation investigation. The local school board and superintendent will receive advance notice of an investigation. Under the new law, if a district is found deficient, the commissioner must take action in four stages: confidential notice to the local board and superintendent; public notice; appointment of an agency monitor to report on local activities; appointment of a master to oversee local operations. If the district loses accreditation, a master must be appointed. A master must approve or disapprove any action by the local board or superintendent.

Beginning with the 1985-1986 school year, students will not be required to begin classes before Sept. 1.

Local school boards will publish an annual performance report based on uniform standards, including financial information, trends of test scores, and data on attendance and class size. Each district will also report the number of teachers at each level of the career ladder created by the new law. This information will be compiled and supplied to the Legislature.

Local school-board members will have to participate in training. An advisory committee named by the state board will develop statewide standards for courses on the duties of school-board members. The state board is empowered to arrange for such training at state regional education-service centers and to approve training by private organizations.

If a state court finds that a civil suit filed against a school district or district officer or employee is frivolous, unreasonable, and without foundation, and if the suit is dismissed or judgment is for the defendant, then under the new law the court may award costs and reasonable attorney's fees to the defendant. This section will not apply to workers' compensation suits, civil-rights actions, personal-injury or death actions, or suits challenging the validity of district policies.

Teachers

Pay. An 11-step salary scale will replace the current state minimum-salary index. The state minimum annual salary for beginning teachers will rise to \$15,200 from \$11,100, starting with the 1984-85 school year. Already-employed teachers will receive a pay raise of at least \$1,700 at the same time. Starting in the 1985-86 school year, teachers will receive annual raises of \$1,140 based on longevity, for a maximum of ten years.

The new law also sets up a four-step career ladder, awarding extra pay to teachers who qualify through experience, additional training, and performance. Those who qualify may be paid special career-ladder supplements of \$2,000 per year at level two, \$4,000 at level three, and \$6,000 at level four. However, if state career-ladder funding proves insufficient to pay all teachers their full supplements, districts will be able to restrict the award of supplements by setting up teacher-performance criteria stricter than the statewide minimum criteria. Districts also are authorized to reduce salary supplements to all eligible teachers proportionally, but not by more than 25 percent.

The new law authorizes increased payments after August 1984 to retired teachers and survivors of teachers. Percentage increases tied to length of service are capped, so that retirees with peak-year incomes higher than \$25,000 will receive no more than those whose highest annual pay was \$25,000.

Competency testing. Teachers and administrators will have to pass an examination on subject-area knowledge and basic skills by June 30, 1986, as a condition of continued employment. The state board and local districts will have to provide teachers with opportunities to prepare for the exam and, if necessary,

with remedial aid. Teachers and administrators will be allowed to take the exam more than once, but the state board can limit the number of attempts. The commissioner of education will be permitted to give teachers an extra year to pass the exam if a district shows emergency need. The state board will have authority to exempt teachers who have already passed a similar or more difficult local examination. (Teachers in Houston Independent School District, for example, currently must pass such a local test.)

Career ladder and appraisals. HB 72 strikes language from previous law allowing districts to terminate teachers or place them on probationary employment for inefficiency in performance of their duties. A new career-ladder system is created instead.

The new law specifies requirements for placement and progress on the career ladder and creates a certification system for the new career-ladder levels. Twice-yearly teacher appraisals, conducted according to statewide criteria, will be required. Teachers' classroom performance will be rated on a scale of five categories, from unsatisfactory to clearly outstanding; evaluations are to be made in the same way and by the same criteria regardless of career-ladder level. Single annual appraisals will be permitted in unusual circumstances. Teachers who cannot perform up to standards developed by the state board for their career-ladder levels will be demoted or not rehired. Teachers who meet the performance standards (and accrue extra hours of academic training) will be promoted on the career ladder.

Appraisal teams will include an administrator and another person authorized by the local district. Whenever possible appraisers who are teachers are not to come from the same campus as the teachers being evaluated.

Under the new law, new teachers will serve a year's probation before moving to career-ladder level one.

Already-employed teachers will be assigned to level one or level two of the career ladder in the 1984-85 school year, depending on their training and experience. Five-member local eligibility committees (three administrators, two level-two teachers) will make the assignments. Out-of-state teachers moving into the system will enter at locally determined career-ladder levels with a one-year probationary contract. By implication, the local committees will also be able to apply such criteria as length of service in their district in addition to the statewide standards.

Under HB 72, teachers can appeal career-ladder assignments that are arbitrary and capricious or made in bad faith. Teachers are entitled to transfer their career-ladder assignments when changing to jobs in new districts; they may waive this entitlement as part of the job-negotiation process.

The new law also specifies that the new career-ladder provisions do not interfere with due-process requirements of other laws governing teacher-contract renewal and the right to present grievances.

The career ladder and the new 11-step salary schedule apply only to classroom teachers, not to other school-district employees (e.g., aides, secretaries, and librarians).

Alternative certification. HB 72 will permit teacher certification for college graduates who have not completed a teacher-training program. Candidates will have to pass a competency test, serve a one-year internship, and take a number of teaching-methods courses. After obtaining level-one certification, they will be treated the same as other teachers.

HB 72 also will allow local districts to hire noncertified mathematics and science professionals as part-time teachers, but only if no certified teachers are available.

State-licensed speech-language pathologists and audiologists will be exempt from the state-board certification required of educational aides and nondegree teachers.

Principals and superintendents. The bill prescribes the qualifications and duties of principals and superintendents.

Teacher-education programs. The bill authorizes the state board to revoke the accreditation of substandard college teacher-education programs. All college teacher-education programs will be required to make annual performance reports to the state board.

Research fund. The bill creates a new Private Donor Research Fund. The state board will solicit private donations and federal money for the fund; up to the \$5-million mark, these may be matched by state appropriation. The state board will develop ways to dispense the funds equitably among institutions engaged in education research.

Aid to teacher-education students. HB 72 authorizes loans from two funds to high-ranking students in college teacher-education programs. The loans will not have to be repaid if

the borrower teaches in public schools for four years after obtaining certification. The bill limits appropriations to the new loan fund to \$5 million per year.

Finance

The finance sections of HB 72 retain the state Foundation School Program as the state's main vehicle for funding local schools, but the program will be substantially revamped.

The current system. The existing Foundation School Program guarantees state support to all students for a basic level of education, as defined by statutory formulas that take into account varying personnel requirements and other costs for different types of school districts, educational programs, and students. Aid is granted on the basis of the number of "personnel units" allotted for each grade level, for vocational education, and for special education, with upward adjustments for small and for sparsely populated school districts.

Personnel units are like coupons that districts cash in by specifying which employees' salaries will be paid by the state under the district's personnel-unit allotments; districts are free to follow a "best buy" policy of having the state pick up the salaries of their most expensive teachers. Wealthier districts, whose local salary supplements have given them larger numbers of higher-paid, experienced teachers, get the state to reinforce their spending advantage over poorer school districts under this system.

The state pays only part of the cost of the Foundation School Program. The local share is based primarily on the amount of taxable property in the district, as determined by the State Property Tax Board. For the current biennium, this Local Fund Assignment is the amount of money yielded by applying a tax rate of 11 cents per \$100 valuation to the district's property-tax base.

Under this formula, the state is currently paying 89 percent of total Foundation School Program costs, with local districts contributing 11 percent. In addition, local districts can and do "enrich" their school programs by raising more property-tax revenue than necessary to meet their Local Fund Assignment. Because district property wealth varies widely, these local enrichment funds are much greater in some districts than in others; in fact, larger amounts of local enrichment money are sometimes raised with lower tax rates in wealthy districts than in some poorer districts with higher tax rates.

Current law also bars increases in the Local Fund Assignment of districts whose property wealth (and, therefore, ability to pay) is increasing. A "hold harmless" provision says no district's Local Fund Assignment may increase by more than 20 percent per year, even if the district's property values increased by more than that. And a "minimum aid" provision says that, despite what the basic funding formula might dictate, no district may receive less state aid than it did in the 1980-81 school year.

The current equalization-aid program seeks to reduce disparities in funding under the above system by providing extra money to districts whose property wealth per student is at or below 110 percent of statewide average property wealth per student. But the amount each district may receive in equalization aid is capped--at \$349 per student for 1983-84.

New law. The inequalities of the existing system have been recognized for years. The current equalization-aid program in particular represents an attempt to remedy the inequities that were attacked in the Rodriguez case before the U.S. Supreme Court 11 years ago. The Rodriguez plaintiffs lost their federal equal-protection claim on a five-to-four vote, but the Supreme Court majority felt compelled to note that the Texas school-finance system was "chaotic and unjust." A new lawsuit by several poor school districts now challenges the system again, this time on state constitutional grounds. The school-finance changes enacted by the Legislature in HB 72 were made partly with an eye toward averting the possibility of an adverse ruling.

HB 72 does away with the personnel-unit mechanism and the related statutory formulas. It replaces the existing school-finance mechanism with a basic-entitlement plan augmented by special allotments.

The State Board of Education will determine what it costs each district to provide accredited education programs to its students. Each biennium the state board will report these accountable costs to the Legislature, which will use the figures in determining the level of state funding for education.

For the first school year under the new system (1984-85), each district will receive a basic allotment of \$1,290 per student. This amount will increase to \$1,350 starting with the 1985-86 school year and can be increased thereafter.

The basic allotment will be adjusted by a price-differential formula that accounts for geographic variation in salaries and other costs in each district. It will be further adjusted by a small-district formula for districts that have no more than 1,600 students and by a sparsity formula for districts that have fewer than 130 students.

In addition to this basic adjusted allotment, each school district will receive special allotments for students enrolled in programs of special, compensatory, bilingual, and vocational education. School districts also will receive special allotments for experienced teachers, education improvement and support for the new career ladder, transportation, and enrichment equalization.

The statewide aggregate share of the Foundation School Program paid by local school districts under HB 72 will be 30 percent of the program's total cost. The amount paid by a particular district will be adjusted based on the ratio of its property wealth to total statewide property wealth; this ratio will be multiplied by the 30-percent factor to establish the particular district's local share. Starting with the 1985-86 school year, this factor will be raised to 33.3 percent.

This formula means that in the 1985-86 school year, the state will pay for 66.7 percent of the Foundation School Program--a lower percentage than now. But the "accountable costs" provision under the new system includes many basic educational costs that are not now included in the Foundation School Program, so the state will actually pay more of the cost of basic education than under the current system.

HB 72 also eliminates the hold-harmless and minimum-aid provisions of the current system.

The new law will grant equalization-aid allotments with the same eligibility criterion as before--district property wealth no greater than 110 percent of the statewide average. But the maximum amount a school district can receive is no longer defined in terms of an amount per pupil. Under HB 72, a district can receive an equalization allotment equaling up to 35 percent of the total of its other Foundation School Program allotments. This maximum will be reduced to 30 percent starting with the 1985-86 school year. HB 72 also adds a tax-effort provision to the equalization formula that will reduce a district's aid if its local property-tax rate is below standard.

HB 72 provides equalization-transition aid to minimize the loss of state aid under the new school-finance system in certain districts. School districts that receive less state aid per student than they received in the previous school year will be eligible for such aid. HB 72 appropriates \$122.5 million for this purpose through the 1986-87 school year. This transition program expires on Sept. 1, 1987.

Net effect of changes. Under HB 72, 246 of the state's 1,069 school districts will receive less state aid in the 1984-85 school year than in the 1983-84 school year, according to State Property Tax Board estimates.

TEA estimates that the 90 poorest school districts in the state (those with per-student property wealth under \$83,000) will receive an additional \$255.4 million, or \$730 per student more, in the first school year under the new system. The 168 richest districts (those with per-student property wealth of \$431,000 or more) will lose \$18.7 million, or \$186 per student. (The statewide average property wealth per student is \$220,209.)

Figures for two districts that featured prominently in the Rodriguez case serve to illustrate the move toward equalization under the new system. Alamo Heights Independent School District, in a relatively wealthy residential enclave surrounded by San Antonio, in 1983-84 had a local property-tax base of \$367,157 per student. With a tax rate of 44.3 cents per \$100 valuation, Alamo Heights was able to raise \$4.6 million in local enrichment funds to supplement the foundation program, yielding total state/local spending per pupil of \$3,679. Edgewood Independent School District, a property-poor district in west San Antonio, with per-student property wealth of \$23,006, was able to generate only 18 percent as much as Alamo Heights in local enrichment funds (\$816,467), even though its tax rate of 29.2 cents per \$100 valuation was 66 percent of Alamo Heights'. As a result, total state/local spending per pupil in Edgewood was only \$2,102. (These figures are based on preliminary average-daily-attendance totals for 1983-84.)

Under HB 72, TEA estimates that state aid to Alamo Heights for the 1984-85 school year will drop \$830,700 below the 1983-84 level of \$3.3 million, while aid to Edgewood will increase by \$11 million over the 1983-84 level of \$23.5 million.

Educational Quality

In order to receive a high-school diploma, students will be required to pass a final basic-skills test in English-language arts and mathematics, in addition to meeting current curriculum requirements. The test, designed to measure "secondary exit level" competencies, will be given to students in the eleventh grade. Students who do not pass all sections of the test will

be given opportunities to retake all or portions of the test during the eleventh and twelfth grades. Students who complete high school but are denied a diploma because they fail to pass all sections of the test will be able to retake the test each time it is administered, and they will receive a diploma when they pass it. School districts will be required to provide remedial instruction to students who do not pass the test. The Texas Education Agency must develop the required tests by Sept. 1, 1985. The State Board of Education will administer the tests starting with the 1985-86 school year.

Students will also take tests designed to measure basic skills in reading, writing, and mathematics in the first, third, fifth, seventh, and ninth grades. Students currently take basic-skills tests in the fifth and ninth grades.

School districts are prohibited from granting "social promotions." Students may be promoted only on the basis of academic achievement. Students must maintain a grade average of at least 70 to be advanced from one grade level to the next and to receive credit for a course. The State Board of Education will adopt rules prescribing alternatives for students who are consistently unable to be promoted because of poor academic achievement.

School districts must notify parents of students who receive failing grades, summarizing the requirements for promotion and attempting to set up appropriate parent-teacher conferences. School districts must provide tutorial services, and they may require students who receive a failing grade in any subject for a grade-reporting period to attend tutorials twice per week or more during the next grade-reporting period.

Advanced-placement exams will allow students to skip a primary-school grade, or, starting with the sixth grade, to be given credit for individual courses.

Starting with the 1985-1986 school year, districts with 15 or more eligible four-year-olds must offer half-day prekindergarten classes. Children unable to speak and understand English or whose family income is below subsistence level, according to standards set by the State Board of Education, will be eligible to attend. The state's share of the cost will be paid from the Foundation School Fund and may not exceed \$50 million per year.

Each district that is required to offer a bilingual-education or special-language program will be required to offer an intensive, eight-week, half-day summer program for children of limited English proficiency who will be starting school for the first time in the fall. Enrollment in the program will be at the option of the parents of the child.

The permissible average pupil-teacher ratio in each school district will be reduced to 20 to one from the current 25 to one. An individual class-size limit of 22 students per teacher will apply to first- and second-grade classes beginning with the 1985-86 school year, and to third- and fourth-grade classes beginning with the 1988-89 school year. The commissioner of education will have the power to grant one-semester hardship exceptions to school districts.

Students will not receive credit for a class if they have more than five unexcused absences during a semester. Students will be required to attend school for a minimum of 170 days per year (85 for kindergartners and prekindergartners), up from the current 165. Students will be required to attend school until the end of the school year in which they reach the age of 16, replacing the current requirement that they attend until they turn 17.

The State Board of Education will, by rule, strictly limit participation in and practice for extracurricular activities during the school day and the school week. The new rules must, to the extent possible, preserve school time for academic activities without interruption for extracurricular activities. School districts will have to adopt and strictly enforce a policy limiting interruptions of the school day for nonacademic activities. The policy must limit announcements to one time during each school day, except for emergencies.

Starting with the spring 1985 semester, a student who receives a failing grade in any academic class for a grade-reporting period will be suspended from extracurricular activities during the next grade-reporting period. The campus principal may waive the suspension if the class is an honors or advanced class. Suspensions will not apply during the summer or during the first grade-reporting period of the fall semester.

The rules and procedures of any organization sanctioning or conducting interscholastic competition will have to be consistent with State Board of Education rules. The board will be able to approve, disapprove, or modify rules of the University Interscholastic League, which remains a part of the University of Texas at Austin.

Each school district will be required to have a state-approved discipline-management program, including a student code of conduct and measures to promote parental involvement. Discipline-management programs must require at least two parent-teacher conferences per year, plus parent-training workshops for home reinforcement of study skills and curriculum objectives. School districts must train every teacher in discipline management.

Under the new law, school-district trustees may remove an incorrigible student to an alternative education program. A pupil may be suspended from a regular classroom program only after a due-process hearing in which it is found that all reasonable discipline-management alternatives have been exhausted. A student may be suspended for excessive unexcused absences or tardiness. School districts must make reasonable efforts to provide for the continuing education of suspended students, including the development and supervision of alternative education programs, for example, in school-community guidance centers. A student who assaults another person on school property and who presents a continuing danger to others, or who remains incorrigible after being placed in an alternative education program, may be expelled from the school system.

The State Board of Education will establish training and performance standards for school-community guidance centers to ensure their effectiveness. The state will monitor each center. When a student is admitted to a school-community guidance center, the student and the student's parent must agree to take on certain responsibilities. The new law makes parental compliance enforceable by court order.

The State Board of Education will adopt rules for vocational-technical education in public schools and will review each program every five years to reestablish approval status. The board will give priority to programs relevant to an annually updated list of priority occupations. Each school district seeking approval of a new vocational program must make a study to determine whether operating its own program is the most cost-effective approach. All requests for programs must include a "plan for articulation" between the proposed program and those already in existence in the area.

All vocational programs must offer competency-based instruction based on curriculum guidelines established by the state board. State board rules will set minimum enrollments for each type of vocational program.

The State Board of Education, in consultation with state agencies, school districts, and the private sector, will create a master plan that describes the objectives of vocational education in Texas. The plan will be updated annually.

The Texas Education Agency is authorized to develop a program to reduce the student drop-out rate, with the goal of reducing the statewide high-school drop-out rate to 5 percent. The Texas Department of Community Affairs will be free to contract with private, nonprofit organizations to provide educational services to student dropouts.

State-board curriculum rules. The above changes will start going into effect at the same time as many changes in curriculum recently promulgated by the State Board of Education. On March 10, the state board adopted rules setting new curriculum requirements for elementary and secondary education and new high-school graduation requirements for all Texas school districts. The new requirements are to be phased in over the next two school years; the new graduation requirements will apply to students starting high school in 1984-85. The board's action fulfilled a 1981 legislative mandate to come up with a statewide curriculum.

The 1981 legislation designated 12 basic subjects that must be offered by each school district. The state board has also set standards for the minimum amounts of time that must be devoted to instruction in basic academic subjects at the elementary-school level. The board established a two-tiered set of high-school graduation requirements that are more demanding than the old requirements in several respects. All graduates must meet certain basic requirements. Students may complete an "advanced program" by meeting additional requirements, which will be indicated on their transcripts. The advanced program adds to the basic graduation requirements another year of science, two years of foreign language, a year of fine arts, and a year of computer science.

RAISING REVENUE

Motor-Fuels Taxes

The gasoline-tax rate will increase from five cents per gallon to ten cents per gallon.

The taxes on diesel fuel and liquefied petroleum gas used as a motor fuel will also rise to ten cents per gallon, up from 6.5 cents and five cents, respectively. Diesel-tax prepaid user permits, which now cost from \$20 to \$54 depending on the weight of the vehicle, will cost \$11 to \$29 more. The cost of liquefied-gas tax-decal permits will double (the cost now ranges from \$24 to \$330, depending on the weight and type of vehicle and mileage driven the previous year).

Increasing the motor-fuels taxes will produce an estimated \$1.34 billion in revenue over the next three fiscal years--\$420.3 million in 1985, \$458.4 million in 1986, and \$461.4 million in 1987. The increase will take effect on Aug. 1, 1984.

Motor-Vehicle Sales, Use, and Rental Taxes

The tax rate for motor-vehicle retail sales will increase to 5 percent from 4 percent.

Also increasing to 5 percent from 4 percent are:

- the gross-receipts tax on motor-vehicle rentals;
- the use tax on motor vehicles purchased out of state but driven in Texas by Texas residents or people doing business in the state; and
- the use tax on motor vehicles purchased tax-free for out-of-state use but subsequently brought back into the state.

The tax on metal dealer plates will increase from \$20 to \$25.

Increasing motor-vehicle sales, use, and rental taxes will produce an estimated \$506 million in revenue over the next three fiscal years--\$159.8 million in 1985, \$170.5 million in 1986, and \$175.6 million in 1987. The increase will take effect on Aug. 1, 1984.

Motor-Vehicle Registration Fees

Registration fees for passenger cars and most other motor vehicles will be raised by \$25 over the next three fiscal years--by \$12.50 in 1985, \$6.25 more in 1986, and another \$6.25 in 1987. Registration fees for passenger cars currently range from \$15.50 to \$33.50, depending on the weight of the vehicle. By Aug. 1, 1986, these fees will be increased to a range of \$40.50 to \$58.50, and will be based on the model year of the vehicle rather than the weight. Fees will be highest for cars three years old or less, and lowest for cars more than six years old.

The phased-in \$25 increase in motor-vehicle registration fees also will apply to:

- motorcycles;
- buses;
- antique cars and trucks;
- commercial motor vehicles;
- truck tractors and road tractors;
- trailers and semi-trailers; and
- motor vehicles designed to transport and spread fertilizer.

Registration fees for truck tractors and commercial vehicles used with semi-trailers weighing more than 6,000 pounds are increased by \$40 over the next three fiscal years, starting with a \$25 increase in 1985.

Fees for personalized license plates are increased from \$10 to \$25.

Increasing motor-vehicle registration fees will produce an estimated \$706 million in revenue over the next three fiscal years--\$152.7 million in 1985, \$233.7 million in 1986, and \$319.5 million in 1987. Increasing the fee for personalized license plates will produce an estimated \$2.4 million in revenue over the next three fiscal years--\$0.8 million in each year. The phase-in of the fee increases will start on Aug. 1, 1984.

Tobacco Taxes

Under current law cigarettes weighing three pounds or less per thousand are taxed at the rate of 18.5 cents per pack of twenty (or \$9.25 per thousand). Those weighing more than three pounds per thousand are taxed at the rate of 22.7 cents per pack (or \$11.35 per thousand). HB 122 will increase this rate one cent per pack in 1985 and another cent in 1986.

HB 122 taxes snuff, which is currently excluded from the definition of tobacco products, at the rate of 25 percent of the factory list price.

In addition to raising the state taxes on cigarettes and taxing snuff, HB 122 will end the current sales-tax exemption for cigarettes, snuff, cigars (including cheroots and stogies), chewing tobacco and other tobacco products.

The effective date for imposing the sales tax on cigarettes and tobacco products is Oct. 2, 1984. The snuff tax will take effect Oct. 2, 1984. The cigarette-tax increases will take effect Oct. 2, 1984 and Sept. 1, 1985.

Raising the cigarette tax by one cent per pack in fiscal 1985 and one cent per pack in fiscal 1986 will generate an estimated \$75.1 million--\$12.7 million in 1985, \$30.4 million in 1986, and \$32.0 million in 1987. The figures take into account an anticipated drop in consumption following the tax increase. Taxing snuff will generate an estimated \$3.5 million--\$1.0 million in fiscal 1985, \$1.2 million in 1986, and \$1.3 million in 1987.

Applying the sales tax to cigarettes, snuff, cigars, and other tobacco products will generate additional revenues of \$178 million--\$47.2 million in fiscal 1985, \$63.5 million in 1986, and \$67.3 million in 1987, according to the fiscal note.

Under current law 90.2 percent of revenues from cigarette taxes goes to the General Revenue Fund; 5.4 percent is dedicated to the state parks fund; 4 percent is dedicated to the Available School Fund, and 0.4 percent goes to the Comptroller's operating fund. The local parks, recreation and open-space fund will receive about 5 percent under an allocation that the Legislature previously suspended until Sept. 1, 1985.

As passed by the House, HB 122 would have dedicated one cent per pack of cigarettes to a new cancer-research fund. That dedication was removed by Senate amendment.

Alcoholic Beverages

Various state taxes on alcoholic beverages will increase by 20 percent as of Oct. 2.

The tax on distilled spirits (liquor) will rise to \$2.40 per gallon from \$2.00 per gallon. This increase will raise \$6.4 million in fiscal 1985, \$8.7 million in fiscal 1986, and \$8.9 million in fiscal 1987--\$24 million over three years.

The tax on vinous liquor (wine) will increase. For wine with less than 14-percent alcohol content, the tax rate will rise to 20.4 cents per gallon from 17 cents per gallon. For wine with more than 14-percent alcohol content, the tax rate will increase to 40.8 cents per gallon from 34 cents per gallon. For artificially carbonated and natural sparkling wine, such as champagne, the rate will rise to 51.5 cents per gallon from 43 cents per gallon. These increases will raise \$800,000 in fiscal 1985, \$1.2 million in fiscal 1986, and \$1.2 million in fiscal 1987--\$3.2 million over three years.

The tax on ale and malt liquor will rise to 19.8 cents per gallon from 16.5 cents per gallon. The increase will raise \$200,000 in fiscal 1985, \$500,000 in fiscal 1986, and \$500,000 in fiscal 1987--\$1.2 million over three years.

The beer tax will rise to \$6.00 per 31-gallon barrel from \$5.00 per barrel. The increase will raise \$5 million in fiscal 1985, \$13 million in fiscal 1986, and \$13.5 million in fiscal 1987--\$31.5 million over three years.

The point of collection of the ale-malt-liquor tax and the beer tax will be changed. Currently, the tax is collected from Texas brewers at the time of sale to the distributor; for products imported from out of state, Texas distributors pay the tax when they buy the imported beverage. Under HB 122, the tax will be collected from the distributor when the beverage is sold to a retailer.

The current allocation of liquor, wine, beer, and ale-malt-liquor taxes is three-fourths to general revenue, one-fourth to the Available School Fund. The allocation under HB 122 will be three-fourths to general revenue, 5/24ths to the Available School Fund, and 1/24th to the Foundation School Fund.

The tax on mixed drinks will increase from 10 percent of gross receipts to 12 percent of gross receipts. The increase will raise \$23.6 million in fiscal 1985, \$30.4 million in fiscal 1986, and \$33 million in fiscal 1987--\$87 million over three years.

The share of mixed-drink tax receipts allocated to county and city governments will decrease from 15 percent to 12.5 percent.

Repeal of the Bank-Shares Tax

HB 122 repeals the bank-shares tax law, which permits local taxing authorities to levy a property tax on banking corporations' stock. Instead banks will be required to pay the state corporate-franchise tax, from which they are now exempt.

Under the new law, banks will also pay local property taxes on now-exempt tangible personal property (furnishings, equipment, etc.).

Treatment of banks under the franchise tax will differ from treatment of other corporations in two ways. First, revenue from the franchise tax on banks will be distributed proportionately among local taxing authorities instead of being deposited in the state's General Revenue Fund. Each taxing authority will receive that portion of bank franchise-tax revenue dictated by applying the ratio of its tax rate to the combined tax rates of all taxing authorities within whose jurisdictions a bank resides. To avoid any conflict with the constitutional provision (Art. 3, sec. 51) that prohibits grants of state money to individuals or localities, the bill specifies that local taxing authorities must use bank franchise-tax revenue for public purposes, which are outlined in the bill.

The second major difference between banks and other corporations for franchise-tax purposes will be in the treatment of banks' taxable capital. Under current law, corporations pay the franchise tax on that portion of their taxable capital attributable to business done in Texas. Taxable capital is attributed to Texas using a ratio of gross receipts in Texas compared to total gross receipts. The state considers a corporation's interest and dividend receipts to be in-state business if the payor is located within the state, but out-of-state business if the payor is located out of state. Under HB 122, all dividends and interest paid to a bank domiciled in Texas will be considered in-state business, regardless of the payor's location. Since dividends and interest account for most of a bank's gross receipts, virtually all of a bank's taxable capital will be allocated to Texas and will be subject to the franchise tax.

According to the fiscal note, HB 122 will give local governments about 70 percent of the revenue they would collect under the bank-shares tax, assuming a 1982 tax base and the "Georgia method" of bank-stock appraisal. This method deducts a portion of bank-held federal securities from bank-stock value, and it is under court challenge. The U.S. Supreme Court is expected to rule on the validity of the method in early 1985. If the Supreme Court rules against the Georgia method, the Legislative Budget Office assumes the revenue potential of the Texas bank-shares tax would be greatly reduced. This assumption underlies a second fiscal-note estimate, which says local governments will realize the following net gains under HB 122: \$56 million in fiscal 1985; \$62.5 million in 1986; and \$66.9 million in 1987--\$185.4 million over three years.

The repeal of the bank-shares tax will settle the dispute between banks and taxing authorities for future tax years. However, the pending litigation over the assessment of bank stock under the bank-shares tax in years past will still have to be resolved.

Insurance

HB 122 requires that all life, health, and accident insurance premiums be taxed--including first-year premiums, which are currently exempt. In-state and out-of-state insurance companies technically will be taxed at the same 2.5-percent rate. But this rate can be lowered to 1.1 percent or 1.8 percent if a company's level of investment in Texas exceeds or roughly equals its investments in a "comparison" state (i.e., the state where the company has the most investments like those it has in Texas). Making the nominal tax rate uniform for all companies reportedly will free the state to use revenues from insurance taxes now being paid under protest by out-of-state companies, which have objected to the current law's imposition of higher tax rates on them than on Texas companies.

The bill requires quarterly prepayment of taxes imposed on first-year premiums received in 1985. Without this provision, no revenue from this source would be collected until 1986.

The insurance-tax changes will yield estimated additional revenue of \$26 million in fiscal 1985, \$56.5 million in 1986, and \$62.3 million in 1987--\$144.8 million over three years. The effective date of these insurance-tax changes is Jan. 1, 1985.

Franchise Tax

HB 122 raises the corporate-franchise tax to \$5.25 per \$1,000 of capital and surplus from \$4.25 per \$1,000. The minimum franchise-tax payment will rise to \$68 from \$55. Franchise-tax payments will be due March 15 instead of the current June 15. The tax increase will generate \$469.8 million over the next three years--\$134.5 million in fiscal year 1985, \$155 million in fiscal 1986, and \$180.3 million in fiscal 1987.

HB 122 also institutes what is called the franchise-tax "throwback provision." This provision affects the allocation of a corporation's capital for tax purposes. Under current law, corporations pay the franchise tax on that portion of their taxable capital attributable to business done in Texas. Taxable capital is attributed to Texas using a ratio of gross receipts in Texas compared to total gross receipts. The state considers receipts from sales to out-of-state consumers to be out-of-state business. If a Texas corporation has an office or is otherwise established in another state, sales to consumers in that state would presumably figure in to the corporation's franchise tax liability in that state. If, however, a Texas corporation making sales in another state has no office or other corporate presence in that state and is therefore not subject to the state's franchise tax, the portion of capital assets represented by those out-of-state sales currently goes untaxed. Under HB 122, gross receipts from these sales will be "thrown back" to Texas for purposes of allocating taxable capital--an out-of-state sale

will be deemed business done in Texas if the corporate seller is not subject to the other state's franchise tax. The throwback provision is expected to generate \$72.9 million over the next three years.

Sales

Effective Oct. 2 , 1984, HB 122 will increase the state sales-tax rate to 4.125 percent from 4 percent. This increase will generate new revenue totaling \$340.1 million over the next three years--\$83.9 million in fiscal year 1985, \$119.1 million in fiscal 1986, and \$137.1 million in fiscal 1987.

The bill also expands the sales-tax base. The definition of tangible personal property in the sales-tax law is amended to include canned or over-the-counter computer software. (Custom software, as defined in the bill, will not be taxed.) Sales-tax revenue from computer software is expected to total \$30.1 million through 1987. Vending-machine food, newspaper and magazine subscriptions, and fertilizer used for nonagricultural purposes will also be subject to the sales tax. These items together will generate \$38.8 million through 1987. Applying the sales tax to cigarettes and tobacco products will yield \$178 million through 1987.

A major change in the sales-tax law is the expansion of the sales-tax base beyond tangible property to include certain services. Services included under HB 122 are:

- repair and maintenance of tangible personal property, except for motor vehicles, aircraft, and commercial ships, boats, and other vessels (total new revenue through fiscal 1987: \$120.8 million);
- selected personal services including laundry, dry cleaning, garment services, Turkish baths, massage parlors, and escort services (total new revenue from cleaning services through 1987: \$90.6 million);
- cable-television and subscription-television services (total new revenue through 1987: \$26.6 million);
- motor-vehicle parking and storage services (total new revenue through 1987: \$12.8 million);
- amusement services, except those provided by governmental entities, by charitable, law-enforcement, or educational organizations, and by nonprofit organizations for charitable or agricultural purposes (total new revenue through 1987: \$161.3 million).

Personal service and amusement services provided through coin-operated machines will not be taxed under the new law. However, tangible personal property and amusement admissions purchased through coin-operated machines will be taxed. Repairs and maintenance of tangible personal property will not be taxed if performed to comply with federal or state environmental-protection or energy-conservation statutes or regulations.

HB 122 makes several other changes in the sales-tax law. Equipment and materials purchased by a contractor in connection with a contract performed for the federal government will no longer be exempt from sales taxation. This provision is expected to bring in \$56.4 million over the next three years. Also, sales tax on purchases made through lease-purchase agreements will have to be paid up front, rather than at the end of the contract. This change is expected to yield \$11.5 million through 1987.

Under current law, "occasional sales" as defined by statute are not subject to the sales tax. This provision exempts garage sales, for example, or single sales of business property. Under HB 122, holders of sales-tax permits could not claim an exemption under the occasional-sales provision. This restriction is expected to generate \$30.5 million over the next three years.

Since the sales tax is applied to retail sales, or sales to the ultimate consumer, sales of property for resale are not taxable. HB 122 would tighten the procedures by which sellers document that sales are for resale. This change is expected to bring in \$31 million through 1987.

HB 122 would broaden the sales-tax exemption for certain aircraft to include airplane-flight simulators. This provision will result in a \$3.8-million revenue loss through 1987.

Together, the repeal of exemptions, expansions of the sales-tax base, and procedural changes will yield \$792.5 million over the next three years--\$221.6 million in fiscal year 1985, \$277.1 million in fiscal 1986, and \$293.8 in fiscal 1987.

Tuition

HB 122 will raise tuition for nonresident students from the current level of \$40 per semester hour to \$46 per semester hour for the 1985-86 academic year (including the 1986 summer session) and to \$53 per hour for the 1986-87 academic year. Foreign students' tuition will be raised from the \$40 level to 150 percent of the new nonresident rate, or \$69 per hour for the 1985-86 year and \$79.50 for the 1986-87 year. The tuition rate of \$4 per semester for Texas residents will remain unchanged.

Foreign medical and dental students currently pay the nonresident rate of \$1,200 per academic year of twelve months. From the 1985 fall semester through the 1987 summer session, HB 122 will raise their tuition to 150 percent of the nonresident rate, or \$1,800 per year.

HB 122 also requires the House Committee on Higher Education to develop an "equitable and reasonable" plan for raising college tuition. It will be required to present the plan and recommendations to the 69th Legislature.

The fiscal note on HB 122 says that the increased tuition revenues available to offset general appropriations as a result of this bill will total \$11.1 million for fiscal year 1986 and \$16.7 million for fiscal 1987.

Other Taxes

Hotel-motel tax. The bill raises the state tax on hotel and motel occupancy to 4 percent of the room price from 3 percent. This increase is effective Oct. 2, 1984, and will generate \$46.4 million over the next three years--\$11.4 million in fiscal 1985, \$17 million in 1986, and \$18 million in 1987.

Coin-operated amusement-machine tax. HB 122 raises the tax paid by owners of coin-operated amusement machines to \$30 per year from \$15 per year. Cities and counties cannot raise local taxes on coin-operated amusement machines above one-fourth the rate the state charges, instead of the current one-half; thus, the maximum local tax is still \$7.50. The state-tax increase takes effect Nov. 1, 1984, and is expected to generate \$7.9 million over the next three years--\$2.5 million in fiscal 1985, \$2.6 million in 1986, and \$2.8 million in 1987.

Motor-carrier sales tax. Effective Oct. 2, 1984, the bill will increase to 5 percent from 4 percent the tax levied on the sale in Texas of interstate motor carriers. This increase will generate \$2.3 million over the next three years--\$0.7 million in fiscal year 1985, \$0.8 million in fiscal 1986, and \$0.8 million in fiscal 1987.

Managing State Cash Flow

In separate legislation, SB 27, by Jones, the Legislature altered the pattern of disbursements from the General Revenue Fund to school districts by spreading the payments over a 12-month period instead of a nine-month period. SB 27 also changes the way junior colleges and the Baylor colleges of dentistry and medicine will receive state grants during the 1985 fiscal year. Instead of getting the bulk of the money directly from

the General Revenue Fund at the beginning of the 1985 fiscal year, these institutions will receive monthly allocations from separate, specially created accounts in which funds for the colleges will accrue interest. The interest will be distributed on a pro rata basis to the institutions at the end of the fiscal year.

The bill also does away with the Motor Fuels Tax Fund. The monies deposited in this motor-fuels fund will now go directly to the General Revenue Fund and will be allocated to the Highway Fund and the Available School Fund on a quarterly basis.

SB 27 advances the franchise-tax due date to March 15 from June 15.

The cumulative effect of these cash-management changes is to ensure that enough money will be in the General Revenue Fund to prevent temporary cash shortfalls in fiscal 1985. The bill takes effect Sept. 1, 1984. The bill is expected to generate \$77.4 million in interest through 1987.

HIGHWAYS

Since 1978, the Highway Department's funding level has been dictated by a formula contained in VACS art. 6674f. This statute, passed during the 1977 regular session as HB 3, guarantees the Highway Department a certain level of funding each year. If the department's constitutionally dedicated funds--the motor-fuels taxes, motor-vehicle registration fees, and motor-lubricants sales tax--do not yield the guaranteed amount, the General Revenue Fund is tapped to make up the difference. The guaranteed funding level is adjusted each year, by means of a special Highway Cost Index, to account for inflation in highway building costs.

The mechanism works as follows: Prior to each fiscal year, both dedicated revenue and the inflation rate are estimated and the appropriate general-revenue transfer is made. If, at year's end, actual inflation or actual dedicated-revenue collections vary from the predicted levels, the general-revenue transfer is corrected by adding or subtracting revenue from the coming year's transfer.

Revenue Gains

HB 122 repeals the HB 3 funding mechanism, though it preserves the end-of-year correction for fiscal year 1984. Since the state Constitution dedicates to the highway fund three-fourths of motor-fuel tax revenue, most of vehicle-registration fee revenue and all of the motor-lubricants sales tax, the fuel-tax, registration-fee, and sales-tax increases authorized under HB 122 will net the Highway Department \$1.67 billion over the next three years--\$433.1 million in fiscal year 1985, \$572.3 million in fiscal year 1986, and \$660.5 million in fiscal 1987. However, the department will not receive the general-revenue transfers from HB 3, which were estimated at \$292.4 million for 1985, \$326.1 million for 1986 and \$377.5 million for 1987--a total of \$996 million.

Beginning in fiscal year 1986, HB 122 allocates to the highway fund one-tenth of the receipts from the motor-vehicle sales, use, and rental taxes.

Also starting in fiscal year 1986, the tax bill allocates to the highway fund general revenue equal to one-eighth the revenue from motor-fuels taxes. This transfer amounts to one-half the portion of motor-fuels tax revenue constitutionally dedicated to the Available School Fund. Together, these transfers will total \$210.6 million in fiscal year 1986 and \$214.9 million in fiscal 1987.

Under the current funding mechanism, the Highway Department was scheduled to receive a \$265 million general-revenue transfer for fiscal year 1985 (\$292 million under the HCI formula, minus a \$27-million correction for the fiscal-1984 transfer).

Since this funding mechanism is abolished as of Sept. 1, 1984, HB 122 authorizes a one-time general-revenue appropriation of up to \$265 million for fiscal year 1985. HB 111, by Rudd, actually appropriates this money.

As a result of the tax bill and HB 111, the Highway Department will receive \$1.36 billion more money through 1987 than it would have under current law. New revenue will total \$405.8 million for fiscal year 1985, \$456.9 million for fiscal year 1986, and \$497.9 million for fiscal year 1987. (These figures estimate current-law funding by projecting both the Highway Cost Index and dedicated-revenue collections three years into the future. Consequently, these estimates should be viewed with caution: Long-range projections of the Highway Cost Index historically have tended to overestimate highway construction-cost inflation, and thus the required general-revenue transfers.) The table below illustrates the highway-revenue gains:

NEW HIGHWAY REVENUE
(in millions of dollars)

Fiscal Year	Fuel Taxes	Registr. Fees	Lubric. Sales Tax	General Revenue	Lost HCI Gen. Rev. Transfer	Total New Rev.
1985	279.8	152.8	.550	265.0*	(292.4)	405.8
1986	337.9	233.7	.750	210.6**	(326.1)	456.9
1987	<u>340.1</u>	<u>319.6</u>	<u>.850</u>	<u>214.9**</u>	<u>(377.5)</u>	<u>497.9</u>
	957.8	706.1	2.15	690.5	(996.0)	1,360.6

*One-time transfer from general revenue authorized by HB 111.

**General-revenue transfers equaling one-tenth the motor vehicle registration fees and one-eighth motor-fuel tax.

The Highway Department also expects to realize a cost savings of \$316.2 million through 1987 as a result of the passage of HB 101, by Cain. This bill strengthens the department's negotiating position in acquiring right-of-way for construction projects. Under the bill, if the Highway Department must resort to condemnation proceedings to acquire right-of-way, the court-appointed commissioners who decide on fair compensation may consider how much the proposed project will increase the value of a landowner's adjacent property.

Farm-to-Market Road Funds

Under HB 120, by Cain, money in the Texas Department of Highways and Public Transportation's farm-to-market road fund previously dedicated to new construction (nearly 60 percent of the fund in fiscal 1983) will be available for improvement and maintenance of farm-to-market roads. The bill removes language from current law that defines farm-to-market roads as rural, thus authorizing expenditures for farm-to-market roads in areas that have become urban. The bill takes effect as soon as the Governor signs it.

Nonprofit Transportation Corporations

HB 125, by Emmett, allows the Texas Highways and Public Transportation Commission to authorize and approve the creation of private, nonprofit corporations to act on its behalf within designated geographic areas.

These corporations are to have all powers necessary to promote and develop transportation facilities and projects and to support related activities. Included among these activities are: receiving land contributions for rights-of-way and cash donations for right-of-way purchases and for project design or construction; borrowing money for operating expenses; paying from donated funds for administrative staff or for legal, public relations, and administrative services; performing alignment studies; preparing exhibits, reports, and engineering plans; and performing other related functions requested by the commission.

The commission can alter or abolish a corporation, its structure, programs, or activities at will, and it will receive any income earned by the corporation. The commission names the board of directors and can remove any directors at will. As a nonprofit, charitable entity, a transportation corporation is tax-exempt. The transportation corporations are subject to the Open Meetings Act and the Open Records Act.

Road Utility Districts

SB 33, by Sharp, authorizes the creation of road utility districts for the purpose of financing, constructing, acquiring, and improving roads and road-related drainage works. After a district developed its proposed facilities, it would transfer ownership to a city or county government. The local government would then be responsible for maintenance, but the district would still be solely responsible for paying off the construction debt. To come into being, a road district would have to win the approval of all landowners in the district; the local government that would end up owning the roads; the

Highway Commission; and a majority of voters in the district. A district would also have to meet requirements set by any city whose extraterritorial jurisdiction the district overlapped. Road districts would finance their projects by assessing fees or, with voter approval, by issuing bonds backed by a property tax levied on property owners in the district.

Supporters said the bill will make it possible to solve some of the growing traffic problems around cities while saving taxpayers tens of millions of dollars, by providing a means by which developers can finance new roads and highways.